

TOWN OF SOUTH PRAIRIE
Pierce County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. Town Officials Should Prepare Annual Financial Reports

The town did not file annual financial reports for the past six years, from 1989 through 1994. This noncompliance has been disclosed in the past two biannual audit reports.

RCW 43.09.230 states in part:

. . . reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

When financial reports are not filed as required, town officials, bondholders, grantors, and other users are denied information concerning the town's financial condition.

The reports were not filed because of turnover in the clerk-treasurer position, failure of the general ledger computer system, and inadequate records.

We again recommend the town prepare and file annual reports as required by law.

2. The Town Should Limit Expenditures To Budget Appropriations

Our audit of the town's operations revealed the town again exceeded budgetary appropriations. The town is required to maintain a system of records to monitor expenditures and ensure expenditure of public funds are within the guidelines approved by the town legislative body in an open public meeting. Expenditures exceeded appropriations in 1993 in the following funds:

		<u>Budget</u>	<u>Actual</u>
Current Expense Fund	(001)	\$115,041	\$129,200
Water/Sewer Fund	(401)	17,952	69,328
Sewer Construction Fund	(404)	2,000	270,283
Sewer Bond Redemption Fund	(406)	-0-	14,446

We were not provided either budget or actual expenditure documentation for the year 1994 to be able to determine if expenditures during 1994 were within appropriations as required by law.

The overspending of appropriations violates RCW 35.33.121 which states in part:

. . . the expenditures of the city or town funds or the incurring of current liabilities on behalf of the city or town shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year

When expenditures exceed the budget, officials are spending without legal authority. The cause of these budgetary overruns appears to be a lack of diligence by management, lack of monitoring by town officials, turnover in the clerk-treasurer position, failure of the general ledger computer system, and inadequate records.

We again recommend the town avoid exceeding its appropriations and improve its budgeting and accounting system.

3. The Town Should Maintain Positive Cash Balances

During our audit of the town's cash and investment balances, we noted the town again had negative cash balances at the end of fiscal year 1993. Both of the following funds listed were noted in the past audit report as having negative cash balances:

Water/Sewer Fund	(401)	\$(5,991)
Sewer Construction Fund	(404)	(29,288)

The negative balances occurred because cash balances are not being monitored.

Since deficit cash balances actually represent unauthorized interfund loans, insolvent funds are benefiting from the financial resources of the other funds of the town.

RCW 43.09.210 states in part:

All services rendered by, or property transferred from, one department . . . shall be paid for at its full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

We again recommend cash balances be monitored to avoid funds becoming and remaining insolvent. We further recommend council approve interfund loans be used when appropriate to keep funds solvent. These loans must be passed by ordinance, have a stated payback period, and carry the current market interest rate.

4. Internal Controls Over Accounting Should Be Improved

Our audit revealed the town has not corrected internal control weaknesses reported in the prior audit report. The loss of the accounting system and not being able to reconcile cash and warrants to independent records are material weaknesses:

- a. Authorization, custody, and recording duties of the accounting systems are not segregated.
- b. The accounting system handling fiscal year 1993 records failed including loss of vendor history, incorrect mathematical computations, and loss of revenue history.
- c. The cash held in banks to the credit of the town did not agree to the general ledger system or the cash receipts and accounts payable records.
- d. Outstanding warrants could not be reconciled between the bank and the town records. The unreconciled difference is \$9,979.63.
- e. Some town financial activity was not recorded on the books as required by law.
- f. The town uses multiple checking accounts, some requiring only one signature.
- g. We found unused checks in the town records which lack the town name, are not prenumbered, and have only one signature line.
- h. Check registers were completed in pencil.
- i. Voided checks did not have the signature block properly removed.

RCW 43.09.260 states in part:

The state auditor . . . shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution . . . The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public

These conditions are a result of the accounting staff changing three times within the two year audit period. Also, the staff is small, and there is a lack of oversight by elected officials. Further, the computerized accounting system which failed was supported by inadequate records.

The absence of adequate internal controls over the accounting system is a material weakness. Public funds are not properly safeguarded. This could result in errors or irregularities occurring and not be detected in the normal course of business.

We again recommend the town improve internal controls over accounting.

5. Town of South Prairie Officials Should Adopt A Whistleblower Policy As Required By State Law

South Prairie officials have not adopted or implemented policies or procedures for investigating Whistleblower complaints as required by state law.

The purpose and intent of a Whistleblower policy is defined by the state legislature in RCW 42.41.010 which states:

It is the policy of the legislature that local government employees should be encouraged to disclose, to the extent not expressly prohibited by law, improper governmental actions of local government officials and employees. The purpose of this chapter is to protect local government employees who make goodfaith reports to appropriate governmental bodies and to provide remedies for such individuals who are subjected to retaliation for having made such reports.

The Local Governmental Whistleblower Protection Act requires local governments to adopt such policies by January 1, 1993.

RCW 42.41.030 states in part:

(2) The governing body or chief administrative officer of each local government shall adopt a policy on the appropriate procedures to follow for reporting such information and shall provide information to their employees on the policy. Local governments are encouraged to consult with their employees on the policy.

The effect of the town's failure to act is to discourage employees from disclosing improper governmental actions or activity. Current respondents could potentially be subject to retaliatory actions without proper protection.

We recommend town officials adopt a Whistleblower policy in accordance with the Local Government Whistleblower Protection Act as codified in Chapter 42.41 RCW.